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Montgomery council angry about Pepco Holdings' reported earnings last year

Spend more on improvements, county lawmakers say

by Margie Hyslop | Staff writer

Pepco Holdings Inc.'s announcement last week that its annual earnings would have been up by \$53 million in 2010 if it hadn't paid off some debt brought renewed criticism from lawmakers who are pressing for tougher laws and regulations to make the firm's electric utility subsidiary improve service.

Much of the reason that PHI earned 62 cents per share, or \$139 million, rather than \$1.24 per share, or \$276 million, was because it used most of the difference — about 51 cents per share — to pay off the debt.

"They enhanced profitability while starving [investments in] the system," said Montgomery County Councilman Roger Berliner (D-Dist. 1) of Potomac, who is an energy attorney. "The earnings demonstrate that the shareholder is faring better than ratepayers."

But PHI Chief Financial Officer Anthony J. Kamerick disagreed with that assessment, said Pepco spokesman Bob Hainey.

The debt payments were for PHI's purchase of Conectiv Energy, a power generating company, and had "nothing to do with Pepco," Hainey said, adding the utility has spent \$900 million on capital improvements during three years, and nearly \$1 billion on operating and maintenance in that period.

Although Pepco has been telling the public it recently has called in crews earlier and restored power relatively more quickly, Berliner and other county lawmakers remain skeptical about how much difference has been made under the \$256 million, five-year improvement plan that Pepco announced after the Maryland Public Service Commission in August opened an investigation into its poor reliability record.

"It's too early to say about their speed in restoring power," said Councilman Philip M. Andrews (D-Dist. 3) of Gaithersburg. "Clearly, the amount of outages is intolerable and contributed hugely to the traffic gridlock we had Jan. 26 [during a storm] when so many traffic lights were out in Montgomery County," Andrews said.

Berliner agreed.

"We have a system that has been allowed to decay to the point that it's like the [Capital] Beltway — if anything goes wrong, we're toast," Berliner said.

Even when storms are not to blame, Pepco customers lose electric service more often, and for longer, on average, than most electric users in Maryland and the nation, a Gazette analysis of records on file with the PSC has shown. In 2009, when there were no major storm outages, Pepco customers lost power 61 percent more often than customers of neighboring Baltimore Gas and Electric Co.

On Monday, Councilwoman Nancy M. Floreen said she wonders now if lawmakers should have pushed harder and not deferred to the PSC to make right problems exposed in the wake of tropical storm Isabel seven years ago.

"I feel pretty bitter about this after Isabel," Floreen (D-At large) of Garrett Park said.

And, Councilwoman Nancy Navarro (D-Dist. 4) of Silver Spring is asking for council member signatures on a letter to ask Pepco to share "at least" some of the extra costs borne by customers who depend on electricity to operate life-supporting medical devices and have had to buy generators and other equipment to ensure life and health, said Miti Figueredo, her chief of staff.

Meanwhile, Berliner and Councilman Marc Elrich (D-At large) of Takoma Park are looking into possibly revoking Pepco's franchise and replacing it with a publicly owned utility.

In a conference call with stock analysts Friday, PHI President and CEO Joseph M. Rigby said the company would "vigorously oppose that." When asked how such a takeover process might unfold, he said it was "premature" to talk about it.

At a hearing Thursday in Annapolis on proposed legislation that would have the PSC set standards on electric utilities for reliability and maintenance, as well as penalties for failing to meet them, Pepco region President Thomas Graham told members of the House Economic Matters Committee that he views the bill as "tough, but fair."

However, utilities' executives at the hearing, including Pepco's, objected to provisions that would require them to perform in the top quarter of the nation's utilities because, they said, there are no uniform national standards.

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